

Introduced by Senator Kuehl

February 24, 2006

An act to amend Section 1378 of the Health and Safety Code, and to add Section 10113.10 to the Insurance Code, relating to health care coverage.

LEGISLATIVE COUNSEL'S DIGEST

SB 1591, as introduced, Kuehl. Administrative costs.

Existing law, the Knox-Keene Health Care Service Plan Act of 1975, provides for the licensure and regulation of health care service plans by the Department of Managed Health Care and makes a violation of the act a crime. Existing law also provides for the regulation of health insurers by the Department of Insurance. Under existing law, a health care service plan is prohibited from expending for administrative costs, as defined, an excessive amount of the payments it receives for providing health care services to its subscribers and enrollees.

This bill would limit the amount a health care service plan and a health insurer may expend for administrative costs in a fiscal year to a specific percentage of the payments they receive for providing health care services to their subscribers, enrollees, and insureds. The bill would include as an administrative cost all forms of monetary benefit paid by the plan or insurer to its shareholders and would require a plan and insurer to suspend payment of that benefit until they compensate, as specified, their subscribers, enrollees, and insureds by the amount their administrative costs exceed the limitation imposed by the bill.

Because this bill would specify additional requirements for a health care service plan, it would impose a state-mandated local program.

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state.

Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement is required by this act for a specified reason.

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: yes.

The people of the State of California do enact as follows:

1 SECTION 1. Section 1378 of the Health and Safety Code is
2 amended to read:

3 1378. (a) No plan shall expend for administrative costs in
4 any fiscal year ~~an excessive amount~~ *more than 15 percent, or 25*
5 *percent for a plan that has been licensed for less than five years,*
6 *of the aggregate dues, fees, and other periodic payments received*
7 *by the plan for providing health care services to its subscribers or*
8 *enrollees. The term “administrative costs,” as used herein in this*
9 *section, includes—costs incurred in connection with the*
10 *solicitation of subscribers or enrollees for the plan all costs*
11 *identified in Section 1300.78 of Title 28 of the California Code of*
12 *Regulations as that section read on January 1, 2005, as well as*
13 *all forms of monetary benefit, including, but not limited to,*
14 *dividends, stock options, and bonuses paid by a for-profit health*
15 *care service plan to its shareholders.*

16 ~~This~~

17 (b) *This* section shall not preclude a plan from expending
18 additional sums of money for administrative costs ~~provided such~~
19 *if the* money is not derived from revenue obtained from
20 subscribers or enrollees of the plan.

21 (c) *A for-profit health care service plan that violates this*
22 *section shall not provide any monetary benefit, including, but not*
23 *limited to, dividends, stock options, and bonuses to its*
24 *shareholders until it has paid to the subscribers and enrollees of*
25 *the plan an amount equalling the amount by which its*
26 *administrative costs exceeds the limit set forth in subdivision (a).*
27 *The payment shall be made by the plan by reducing the amount*
28 *of its premium or increasing the benefits provided to subscribers*
29 *and enrollees.*

30 SEC. 2. Section 10113.10 is added to the Insurance Code, to
31 read:

1 10113.10. (a) No health insurer shall expend for
2 administrative costs in any fiscal year more than 15 percent, or
3 25 percent for an insurer that has issued health insurance policies
4 for less than five years, of the aggregate dues, fees, and other
5 periodic payments received by the insurer for providing health
6 care services to its insureds. The term “administrative costs,” as
7 used in this section, includes all costs identified in Section
8 1300.78 of Title 28 of the California Code of Regulations as that
9 section read on January 1, 2005, as well as all forms of monetary
10 benefit, including, but not limited to, dividends, stock options,
11 and bonuses paid by the health insurer to its shareholders.

12 (b) This section shall not preclude an insurer from expending
13 additional sums of money for administrative costs if the money is
14 not derived from revenue obtained from its insureds.

15 (c) An insurer that violates this section shall not provide any
16 monetary benefit, including, but not limited to, dividends, stock
17 options, and bonuses to its shareholders until it has paid to its
18 insureds an amount equalling the amount by which its
19 administrative costs exceeds the limit set forth in subdivision (a).
20 The payment shall be made by the insurer by reducing the
21 amount of its premium or increasing the benefits provided to
22 insureds.

23 SEC. 3. No reimbursement is required by this act pursuant to
24 Section 6 of Article XIII B of the California Constitution because
25 the only costs that may be incurred by a local agency or school
26 district will be incurred because this act creates a new crime or
27 infraction, eliminates a crime or infraction, or changes the
28 penalty for a crime or infraction, within the meaning of Section
29 17556 of the Government Code, or changes the definition of a
30 crime within the meaning of Section 6 of Article XIII B of the
31 California Constitution.